Alberta
Women's

an information publication
of the Alberta women's bureau

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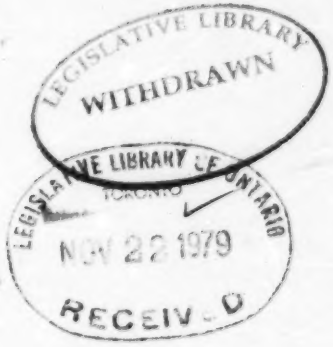

Alberta
WOMEN'S BUREAU

life insurance and disability insurance

Insurance protection can be a necessary part of the financial security of anyone having a true insurable interest to protect. The following will explain basic concepts about life insurance and disability insurance as well as outline some of the problems women encounter in obtaining the coverage they want. It is not intended to be the final word on a complicated subject.

Revised May, 1979

a message from the director

Life insurance and disability insurance are essential to anyone who has a true insurable interest to protect, yet they are among the topics to which relatively few women have been exposed. Along with mortgages, wills and pension plans, insurance (with the possible exception of automobile insurance) was traditionally regarded as something which didn't concern women and decisions of this nature were often left to a husband or father.

Our lifestyles are changing rapidly. Today's woman, having achieved more independence than ever before, has also had to assume more responsibility. Most married women either work outside the home or plan to at some point in their lives. Other working women have chosen to remain single and pursue a career. More women than ever before are finding themselves heads of households with full responsibility for dependents.

All of these thousands of women should give insurance the same careful thought they give to choosing their careers or the schools their children attend. Unfortunately, few will do so. Instead of a wisely chosen insurance policy, most will respond to the conditioning of earlier decades and ignore insurance altogether. Others will attempt to understand it but will be put off by the jargon before learning what insurance can and cannot do for them. Still others, not understanding the concepts and pitfalls, will walk into a trap and be caught in a highly expensive or entirely inappropriate insurance plan. Each of these approaches can be short-sighted or even tragic.

The Alberta Women's Bureau prepared *Life Insurance and Disability Insurance* to help destroy the myths that surround insurance; to present the essential concepts from the woman's point of view and in everyday language, so that everyone who reads it will gain a solid understanding of

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what can be an essential element of financial security. Our success is measured by the fact that several insurance companies have asked us for copies of this booklet to distribute to their clients and potential clients as well.

Study our booklet until you're at ease with all the concepts it explains, then get in touch with representatives of reputable insurance companies to discuss your specific needs. When you do so, you'll discover that the best insurance companies are becoming more aware of women's needs and concerns, and are at least prepared to discuss them. The most reputable companies will employ only responsible agents who regard themselves as professionals bound by a standard of ethics as stringent as those governing the work of doctors, lawyers and engineers. Long after you sign a contract, those agents will, at your request, provide continuing consultation as your insurance needs change, and offer advice on a broad range of topics including wills and estate planning.

However, all too many unprepared customers have discovered how easy it is to be 'burned' by disreputable companies and irresponsible agents. That is why you should approach the subject with a clear understanding of the concepts involved so you can cut through the jargon and zero in on your specific needs.

The first step is yours. Turn the page and start reading. The time you spend becoming knowledgeable about insurance could be the best investment you'll ever make.

E. Phyllis Ellis
Director
Alberta Women's Bureau

introduction

All insurance — whether life, disability or automobile — is based on the principle of "spreading the risk". This means that a group of people who face a common risk get together to spread the cost of the risk among themselves rather than leave each individual to bear the cost of the risk alone. Insurance is usually provided for profit in return for a fee called a premium. The purpose of this paper is to present some facts about life insurance and disability insurance in an effort to make the point that **insurance protection can be a necessary part of the financial security of those people who have a true insurable interest to protect.**

life insurance

WHAT IS IT?

Life insurance protects people from the risk of dying without adequate funds to care for their dependents. People wishing to protect themselves and their families from this fate make payments into a joint fund managed by an insurance company. When a contributor dies, the amount of money that makes up the death benefit is paid to the people designated as beneficiaries.

The cost of life insurance is calculated in terms of "cost per thousand dollars of benefits". In other words, each person contemplating buying life insurance needs to ask: "How much will I pay in annual premiums for each thousand dollars of death benefits that will go to my beneficiaries?"

WHO NEEDS IT?

The only people who should buy life insurance are those who have an insurable interest to protect. Consumers' Union states that the primary purpose of buying life insurance is to provide **immediate protection for dependents** should the person on whom they are dependent die.

TERM INSURANCE

The first major type of life insurance is term insurance. Its only purpose is to offer protection. When you purchase term insurance, you buy protection for a fixed number of years — the policy's "term". If you die before the term expires, your beneficiaries receive the death benefit. If you outlive the term, the policy expires and the company pays nothing. A term insurance policy can usually be converted to cash-value insurance coverage without evidence of insurability.

LEVEL AND DECREASING TERM INSURANCE

There are two types of term insurance:

1) level
2) decreasing.

Level term insurance means that the size of both the death benefit and the amount payable in annual premiums remain "level"; they do not change during the life of the policy. However, because risk of death increases with age, insurance companies issue level term coverage for short periods; five-year terms are common.

What happens if you outlive the term and wish to buy coverage for another term? You can expect to pay significantly higher premiums for the identical death benefit because you are now five years older. If the original policy was **guaranteed renewable,** you are automatically entitled to further coverage regardless of your current state of health. If your original policy was not guaranteed renewable, you will have to re-apply when the term expires if you want to renew the policy. If your health has deteriorated, you may find it more difficult, if not impossible, to obtain coverage. The implication is obvious: **if you think you will want to renew the coverage at the end of the term, be certain that the original policy is guaranteed renewable.**

Decreasing term insurance is issued for longer periods — ten years, twenty years and sometimes until age 65. It works this way: the premium remains constant during the life of the policy, but the death benefit decreases by a fixed proportion every year until it reaches zero at the end of the term. These conditions reflect the fact that the risk of death increases with age — the older you are, the less protection your insurance dollar will buy.

There are two points to remember about term insurance. First, with both types of term insurance, level term or decreasing term, you pay solely for protection; no one receives any money if you outlive the policy. Second, if you default in any way on term insurance, you will be required to re-apply if you wish to resume term coverage. Your health, occupation and recreational activities can all have a bearing on the success or failure of your re-application.

CASH-VALUE INSURANCE

The second major type of life insurance — cash-value insurance — **does** provide you with money if you outlive the policy.

Cash-value insurance is simply a combination of decreasing term insurance and a build-up of reserves known as cash values. This is how it works: at any given time, the death benefit payable (called the "face value") equals the sum of the decreasing term component and the cash-value component.

The most common types of cash-value insurance are:

1) whole-life policies which can provide coverage for the whole of life, on which no further premiums are required after age 85 or 90
2) endowment policies which are written to an age that is reasonably within one's life span, say, for 20 years, or until age 65.

WHY CASH-VALUE INSURANCE?

Cash-value insurance was created for two reasons:

1) to provide relief from the fact that the cost of protection increases with age
2) to combine the two features of:
   a) an undiminishing death benefit
   b) constant (or level) premiums available for as long a term as desired.

Cash-value insurance is an excellent means of attaining those two goals. However, before you make a choice between purchasing term insurance or cash-value insurance, you should be aware of several important facts about cash-value insurance.

WHAT IS THE DIFFERENCE IN COST?

When you compare the cost of a whole-life cash-value policy with the cost of a five-year level term guaranteed renewable policy that pays the same death benefit, you'll find that the premium for the whole-life policy remains the same for the life of the policy, whereas the premium for the level term policy will increase, for instance, every five years if it's a five-year renewable policy.

However, the premium for the whole-life policy can be as much as four times higher than the initial premium for the level term policy.

POINT NUMBER ONE:

When you're considering cash-value insurance, ask yourself if you can afford to pay the higher premium for the whole-life policy in your early lower income years, when the same amount of protection (or death benefit) is available for much less on a term basis.

"SAVINGS ACCOUNT" FEATURE

The "savings account" feature (or cash-value component) of a cash-value insurance policy makes it possible for you to receive money if you require cash or no longer want or need the protection. The money in the cash-value component comes from the build-up of reserves on which the insurance company pays interest on your behalf. (We'll return to the savings account portion of cash-value insurance after discussing what will happen if you do, or do not, outlive the policy.)

If you outlive a cash-value insurance policy, its decreasing term component will be zero, and you will receive its cash value, which is the money accumulated in the policy's cash-value component.

If you die while the policy is in force, the insurance company will pay the death benefit — the sum of the policy's decreasing term component and its savings account component. Even though the size of the death benefit remains the same, the proportion of the death benefit the insurance company agrees to pay out of its own funds decreases with each passing year. The balance of the death benefit consists of your money (the cash value) which the insurance company is banking for you.

POINT NUMBER TWO:

With each passing year, the company gradually reduces the size of the risk it bears, while you gradually absorb more of it. The amount of straight protection that you are buying continually decreases.

With some life insurance policies (known sometimes as Participating policies), a refund of the premium is paid to the policy holder at the end of each year. This refund is called a dividend and is similar to an investment in the company. It's the policy holder's share in the distribution of the company's surplus earnings. If you purchase this type of policy, the dividends on your cash-value insurance may be:

1) used to buy additional insurance
2) applied to your policy to reduce the premiums. (Upon request, this will be automatically done for you by the insurance company.)
3) cashed in on request
4) left to accumulate interest (federal government legislation stipulates the rate to be paid must not be less than 3%) paid according to the length of time you've had the policy.
5) some companies offer a fifth alternative which insures the cash value of the policy. Consult your insurance agent.

HOW COMPETITIVE ARE THE INTEREST RATES?

POINT NUMBER THREE:

The rate of interest paid by the insurance company on the annual premium may be less than that paid by the banks.

Of equal importance is accessibility to that money. The only way you can acquire the savings account money before the policy expires, without cancelling the policy, is to borrow it from the insurance company. Your accumulated dividends may be cashed in.

POINT NUMBER FOUR:

When you borrow the money from the insurance company, two things happen:

1) *you are charged interest*
2) *the amount of the death benefit is reduced by the unpaid balance of the loan.*

TERM INSURANCE OR CASH-VALUE INSURANCE

If you decide that you need life insurance, what sort of insurance should you purchase — term insurance or cash-value insurance?

Before you make your decision, remember that there are two distinct goals in purchasing life insurance:

1) to provide immediate protection for dependents
2) to guarantee a retirement income.

The person who buys cash-value insurance and outlives the need for protection may attain both goals, but at a higher cost than she would incur if she were purchasing just protection:

1) She pays higher premiums initially than the buyer of term insurance pays for the same amount of coverage.
2) She continues to pay those higher premiums while the people being protected approach independence.
3) The money in the savings component may be earning less than it could be in other generally available investment vehicles such as bank savings accounts, guaranteed investment certificates or Registered Retirement Savings Plans.

What happens if you change your mind about the kind of life insurance you need? Term insurance may readily be converted to cash value insurance. Doing the reverse requires proving insurability. Your insurance agent will provide you with the details of the interchangeability.

In answer to the question "Should I buy term insurance or cash-value insurance?" we will quote the following: "Buy term and invest the rest, is a

phrase not very popular among life agents. It's one most Canadians should learn and use."

("Buy Term and Invest the Rest" in *The Edmonton Journal*, February 16, 1978, p.A9.)

The subject of life insurance is complicated, and deserves careful thought. Our advice is this:

1) Re-read this information until you are comfortable with the concepts it discusses.

2) Ask the staff at your public library for books and articles about life insurance, or read the material listed in the Bibliography at the back of this paper. (The Bibliography was carefully compiled to represent all points of view.)

3) Learn what the insurance industry itself has to say about life insurance by using the two toll-free industry-wide information numbers given below, or by writing the address listed.

The Canadian Life Insurance Association
55 University Avenue, Suite 1400
Toronto, Ontario M5J 2H7
Zenith 1-800-261-8663

People more fluent in the French language may telephone:

Zenith 1-800-361-8070
Montreal, Quebec

An industry representative will answer your questions.

can women buy life insurance?

There are no restrictions to women purchasing life insurance; in fact, they usually enjoy a distinct financial advantage over men doing so!

The rates people pay for life insurance are determined by actuarial tables compiled from the census and other sources. Because these statistics reveal that women live longer than men, women pay lower premiums for life insurance. But shop around for the best price for the coverage you want.

Comparative prices and policies for most companies are contained in Stone and Cox Life Insurance Tables, published yearly. This book is available at your local library or may be purchased from:

Stone and Cox
55 York Street
Toronto, Ontario
M5J 1R7

Furthermore, a woman who can afford the premiums will have no trouble obtaining life insurance, subject, of course, to insurability. A recent newspaper story seemed to suggest that a woman trying to buy life insurance encountered discrimination. She wanted to buy a whole-life

policy in order to leave money to two favourite nieces. She apparently went to several agents who refused to sell it to her; not because she was a woman, but because she was trying to use insurance as an investment vehicle, and had no dependents to protect. Discrimination? Hardly! She was getting sound financial advice. It's worth saying again: life insurance is for people who have a true insurable interest to protect.

what happens

if you become permanently disabled while your term or cash-value insurance policy is in effect?

The person who becomes permanently disabled while a life insurance policy is in effect must continue to pay the premiums unless the original insurance policy contained a **waiver of premium clause.** The inclusion of such a clause in an insurance policy means that the policy will remain in force without the need for further premiums should the policy holder become premanently disabled. You are responsible for paying the first six months' premiums, but this money is most often refunded. Note, however, that some companies discontinue offering the waiver of premium clause after a certain period of time (usually at age 65 or 70). If you are interested in the waiver of premium feature in a life insurance policy, be sure to discuss it with your insurance agent.

is there a tax on death benefits?

There is currently no tax payable on death benefits paid to beneficiaries, whether these benefits are paid pursuant to a term policy or to a cash-value policy, unless a contract is registered as a Registered Retirement Savings Plan.

disability insurance

WHAT IS IT?

Disability insurance is designed to protect people from loss of income due to accident or illness. Every woman who works to support herself should consider buying it. In Canada, disability insurance is available from both the public and the private sector.

The federal government's Unemployment Insurance Commission (UIC) provides a limited amount of disability coverage to people who are employed by someone else. The UIC currently provides a maximum of 15 weeks' coverage in the amount of two-thirds of weekly insurable earnings.

The private sector insurance industry sells disability insurance to those people — such as the self-employed — who do not qualify for the UIC coverage, or to those people who seek lengthier coverage than the UIC offers.

The private sector's disability insurance works the same way as the public sector's. The insurance company will pay a disabled policy holder a fixed proportion of her regular earnings, usually two-thirds of gross income. Such coverage is available to both individuals and to groups. Many people belong to a group disability insurance plan through their place of employment or professional organization. However, disability insurance is not available to everyone.

CAN EVERYONE BUY DISABILITY INSURANCE?

As important as it is to have disability insurance, not everyone who wants it can buy it.

We have already mentioned that the self-employed do not qualify for the Unemployment Insurance Commission's disability insurance coverage. Nor will the private sector insurance industry sell disability insurance to everyone who wants it. Self-employed people in certain occupations have difficulty obtaining private sector disability insurance.

Some insurance companies now offer only limited coverage to self-employed tradespeople by issuing what is called a cancellable policy.

A cancellable policy gives the company the right to cancel a policy and not renew it after the first claim is paid out. The life insurance industry maintains that a company will rarely, if ever, cancel an individual's policy, but will instead concern itself with examining the risks involved in insuring an entire class of tradespeople.

Of concern to women is the fact that among those who are not eligible for disability insurance are all the nation's full-time housewives. Why? The life insurance industry claims that housewives aren't insured for disability because of the "practical problem" that there would be no incentive for a housewife to cease claiming disability payments. The industry claims that a salaried worker has an incentive to return to work because disability payments are lower than salaries. Because a housewife earns no income, the industry believes, she would have no incentive to stop claiming benefits.

We think the industry's position is untenable. After all, it should not be difficult for the insurance industry to design a disability insurance policy for housewives that will

a) cover the cost of hiring help to look after household matters while the homemaker is ill, and

b) that will protect the industry against malingering by stipulating a schedule of independently-conducted medical examinations.

However, there is one way in which a full-time housewife can obtain disability insurance. A male agent spoken to said that some companies will sell disability insurance to a woman earning an income, and will permit the coverage to continue if she drops out of the paid labour force and continues to make the payments.

Such companies are offering policies that only the client can cancel. Check carefully for the presence of such a clause before you commit yourself to a purchase. Be certain also to check to see the extent to which **The Alberta Insurance Act,** Sections 3 and 4 of Part 8, may nullify the benefits. Of even greater concern is the fact that many unwary women eligible for disability insurance may pay more for it than men do — and don't need to.

Why do some eligible women pay more?

Some insurance companies charge rates based on outdated statistics comparing the frequency that men and women are off work due to illness. More recent statistics indicate that while the rate of absences due to short-term illnesses is higher for women than for men, the rate for long-term illness (the illness for which disability insurance is made available) is higher for men than for women. Furthermore, hospital statistics reveal that the male rate for the most seriously disabling conditions — including cancer, heart disease, ulcers, hernia, and cirrhosis of the liver — is much higher (in one instance over 300% higher) than for women.

According to these statistics, there is no justification for the wide differential (sometimes as high as 300%) between the premiums men and women pay for the identical coverage.

Some insurance companies have responded favourably to the evidence, and are prepared to charge more equitable rates. A male agent spoken to advises women to shop around when looking for disability insurance. He said that a woman could pay the same rates as a man for the same coverage from a good company.

where to get help

There are agencies to contact in the event you have questions to ask about life insurance or disability insurance.

The Alberta Human Rights Commission

The anti-discrimination provisions of **The Alberta Individual's Rights Protection Act** are enforced by the Alberta Human Rights Commission. The Commission is empowered to supervise services offered to the public (including insurance) under Section 3 of that Act.

Alberta Human Rights Commission
Room 501, 10053 - 111 Street
Edmonton, Alberta
T5K 2H8
Phone: 427-7661

You may telephone this office toll-free by dialing your local R.I.T.E. (Regional Information Telephone Enquiry) number.

Insurance and Real Estate Branch

The Alberta Department of Consumer and Corporate Affairs' Insurance and Real Estate Branch regulates the insurance industry in Alberta and acts on questions or complaints from consumers.

Insurance and Real Estate Branch
Alberta Consumer & Corporate Affairs
Capitol Square, 10065 Jasper Avenue
Edmonton, Alberta
T5J 3B1
Phone: 427-2244

You may telephone this office toll-free by dialing your local R.I.T.E. (Regional Information Telephone Enquiry) number.

Consumer Organizations

An additional source of assistance for insurance matters is:

The Consumers' Association of Canada
Alberta Branch
Box 5112, Station "E"
Edmonton, Alberta
T5P 4C1
Phone: 475-1903

The Life Insurance Industry

The Canadian Life Insurance Association
55 University Avenue, Suite 1400
Toronto, Ontario M5J 2H7
Zenith 1-800-261-8663

People more fluent in the French language may telephone:

Zenith 1-800-361-8070
Montreal, Quebec.

An industry representative will answer your questions.

conclusion

There are a number of important points to consider about life insurance and disability insurance:

1) Purchase life insurance only if you have a true insurable interest to protect.
2) If you decide you need life insurance, be fully aware of the differences between term insurance and cash-value insurance before you make your purchase, and weigh those differences against your personal goals and plans.
3) Every working person should take a careful look at disability insurance.
4) A woman contemplating buying disability insurance should analyse her needs and shop carefully to have them met at the best rates available.

Women are buying more insurance than ever before, and are making their voices heard. Even though the life insurance industry is becoming aware of the needs and concerns of women, there remain some serious questions to be answered:

1) Should sex be a factor in risk classifications?
2) Can society tolerate unjustified premium differentials for men and women?
3) Should housewives and others be denied disability insurance?

People who have concerns or questions about life insurance may contact any of the agencies listed in the section **where to get help.**

Finally, we include a list of writings about insurance. Your public library can help you find these and other discussions of a subject of great importance to everyone.

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* All publications marked with an asterisk are available from:
The Canadian Life Insurance Association
55 University Avenue, Suite 1400
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